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# India and Its Neighbors: Cooperation or Confrontation?

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An Intelligence Assessment

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December 1982

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# India and Its Neighbors: Cooperation or Confrontation?

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An Intelligence Assessment

This paper was prepared by [redacted]  
the Office of Near East-South Asia Analysis with  
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and may be addressed to the Chief, South Asia  
Division, NESA, [redacted]

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This paper was coordinated with the National  
Intelligence Council and the Directorate of  
Operations. [redacted]

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**India and Its Neighbors:  
Cooperation or Confrontation?**

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**Key Judgments**

*Information available  
as of 1 November 1982  
was used in this report.*

India's fundamental policy goal in South Asia is to preserve and strengthen its dominance of a region that it would like to see peaceful, stable, relatively prosperous, and free of superpower influence. Although it publicly claims to respect the sovereignty and independence of its smaller and far weaker neighbors, India has often pursued its policy of hegemony at the expense of good relations with them.

The persistence of interstate tensions in South Asia has significant implications for US interests. Indo-Pakistani animosity has led to three wars since independence and complicates US relations with both countries. Pakistan's determined pursuit of a nuclear weapon could launch a nuclear arms race in the region and is unlikely to be abandoned in the interests of better Indo-Pakistani relations. A fourth Indo-Pakistani war could result in the dismemberment of Pakistan and further Soviet encroachment in South Asia.

Despite the region's history of conflict and disharmony, we believe that near-term prospects for stability are generally good. Relations between India and its neighbors are better than they have been for years. In the three years since the Soviet invasion of Afghanistan and Indira Gandhi's return to power:

- Both India and Pakistan have begun bilateral discussions aimed at some form of nonaggression pact. Although serious substantive differences remain, we believe that these talks have reduced tensions appreciably and could help prevent another war.
- India has moderated its traditional hardline policies toward its neighbors and has softened its opposition to greater interstate cooperation. After initial reluctance both India and Pakistan are participating in the process of building a regional organization that is being spearheaded by the smaller states.

Progress in reducing substantive differences, however, will depend significantly on the attitudes and leadership of Prime Minister Indira Gandhi, and we believe that the South Asian countries can achieve only limited cooperation as long as she remains in power. Gandhi, in almost complete control of Indian foreign policy, is a staunch nationalist who has often been insensitive to the concerns of the smaller states. In our view, she considers

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independent action by them as a challenge to India's regional supremacy and to her own personal authority. We believe that her recent sympathetic treatment of the smaller states is largely tactical and that she would revert to tougher policies if she believed India would benefit.

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## India and Its Neighbors: Cooperation or Confrontation?

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India's stated objective in South Asia is to pursue friendly relations with its neighbors. An official Indian foreign policy planning document published in early 1982 states that India respects the territorial integrity of its neighbors and intends to work for mutual cooperation on a bilateral basis. The document noted, however, that the pace of such cooperation cannot be "artificially forced."

New Delhi's record of building solid and constructive relationships with its neighbors has been spotty at best. Since independence in 1947, India's relentless and often heavyhanded pursuit of leverage over its far weaker neighbors and its insistence on a benign hegemony over the subcontinent, in our view, have created a series of adversarial bilateral relationships and have poisoned the atmosphere for a regional approach to common problems.

New Delhi's fundamental policy goal in the region is to preserve and strengthen Indian dominance in a peaceful, stable, and relatively prosperous subcontinent that is free of superpower influence. As the area's strongest military and economic power, India traditionally has presumed to be the arbiter of regional interests, which it generally equates with its own. In our judgment, New Delhi expects its neighbors to accommodate its concerns and defer to India's lead, especially on matters of direct concern to the region. We believe, however, that India's fundamental preoccupation with preserving regional stability somewhat limits New Delhi's ability to force the smaller states into line.

### South Asian Relations Since 1971

The war with Pakistan in 1971 strengthened India's position as by far the most powerful state in South Asia. By intervening militarily in the Pakistani civil war, it helped split its principal adversary and assisted in the birth of an independent and initially pro-India Bangladesh. In August 1971 New Delhi signed a friendship treaty with the Soviet Union to buttress its position in the face of alleged Sino-Pakistani-US

collusion to prevent the breakup of Pakistan. Six months after the cessation of hostilities, India and Pakistan signed a peace agreement at Simla that institutionalized the principle of bilateralism in their relations.

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Reports from embassies indicate that the smaller states viewed India's victory and its treaty relationship with the Soviet Union with considerable alarm. India mounted a diplomatic campaign to assuage these fears, but subsequent Indian actions—the "peaceful" nuclear explosion of 1974, the absorption of Sikkim in 1974-75, and Gandhi's emergency rule during 1975-77—rekindled them. Nepal and Sri Lanka saw the partition of Pakistan as an example for themselves and feared that India might use its enhanced power against them at some future date. The war destroyed Sri Lanka's former policy of balancing between India and Pakistan and sparked fears that India might support the Sri Lankan Tamil minority's movement for autonomy. We believe that both Bhutan and Nepal continue to worry that Sikkim's fate may someday be their own.

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During 1977-79, the Janata Party government of Morarji Desai and the successor caretaker regime of Charan Singh adopted a more sympathetic approach toward the neighboring states and tried to establish a more constructive climate in the region. Desai publicly accepted President Zia's assurances that Pakistan's nuclear program was only for peaceful purposes. In addition, New Delhi catered to Nepalese sensitivities by signing separate trade and transit agreements with Kathmandu in 1978 and negotiated a five-year water-sharing agreement with Bangladesh in 1977.

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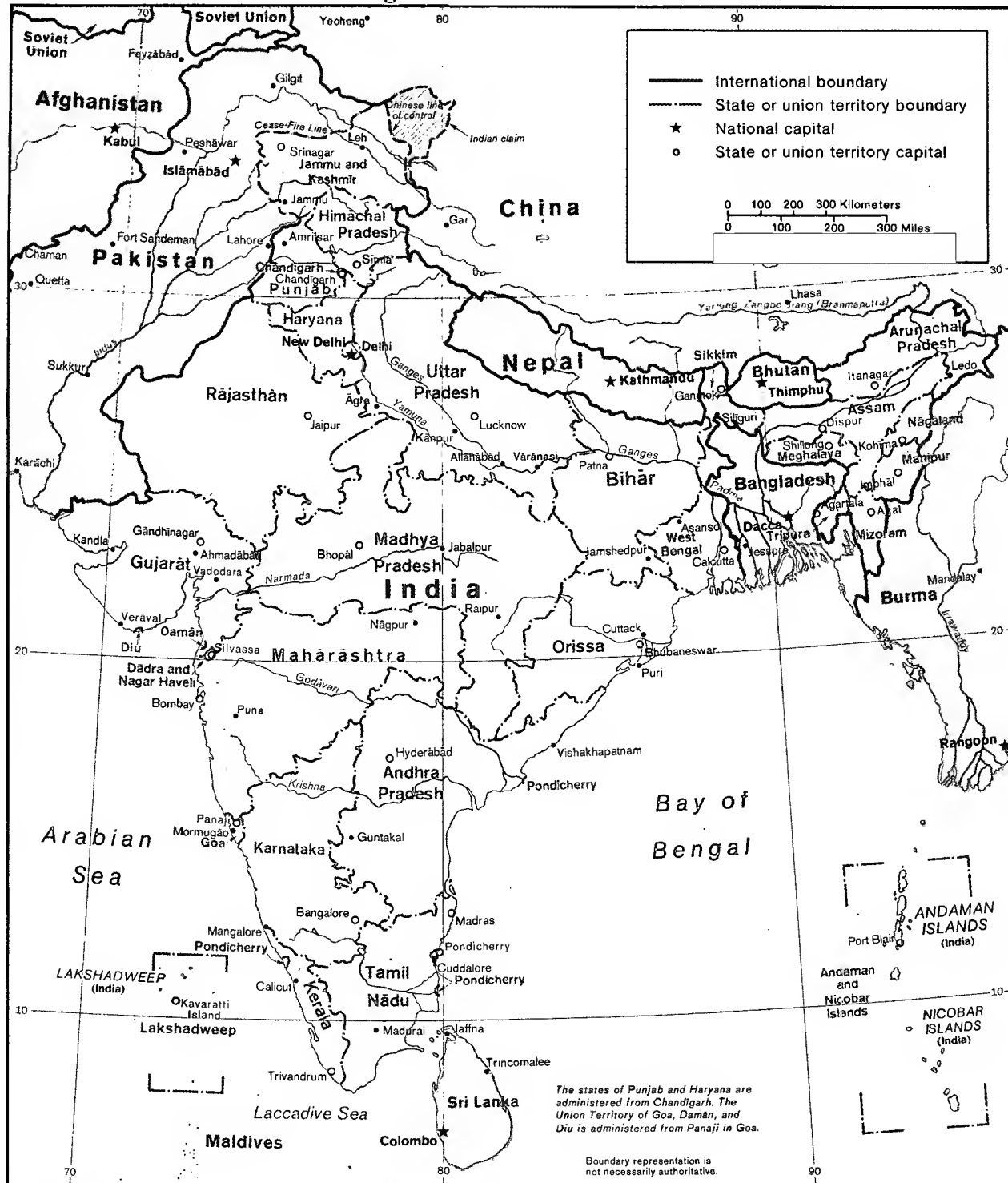
The dramatic election victory of Indira Gandhi in January 1980 was an unpleasant surprise to the neighboring states. During the campaign she castigated the moribund Janata regime for its soft line toward these countries and had publicly alluded to "adjustments" she planned to make in Indo-Bangladesh and

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**Figure 1**  
**India and Its Subcontinent Neighbors**



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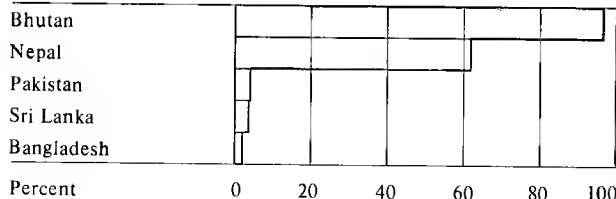


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**Figure 2**  
**India: Share of Trade of Neighboring Countries**

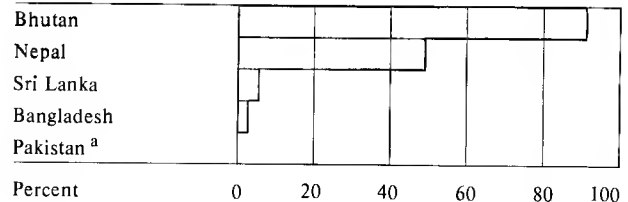
**Neighbors Exports 1980-81**

Exports From:



**Neighbors Imports 1980-81**

Imports Into:



<sup>a</sup> Not available, believed negligible.

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Indo-Nepalese relations. In meetings with the rulers of Bangladesh, Nepal, and Bhutan shortly after her return to power, Gandhi left little doubt that her government would be less conciliatory toward them, [redacted]. Her ambivalent attitude toward the Soviet invasion of Afghanistan coupled with her known proclivity for close relations with Moscow increased nervousness among the smaller states. [redacted]

The smaller states have been generally surprised by Gandhi's increased sensitivity toward them since her return to power. Embassy reporting indicates that Nepal and Bangladesh are relieved that she has not carried out her campaign threats to "adjust" India's relations with them. Although specific complaints against New Delhi's behavior remain, we believe that Gandhi has made a conscious effort to allay the fears of neighboring states. India has shown a generally constructive attitude toward participating in a regional cooperation scheme, a concession to neighbor-state interests that Gandhi would probably not have made in earlier years. In addition, India adhered to a 1977 water-sharing agreement with Bangladesh at some cost to its own economic interests [redacted]

The neighboring states, however, are finding it hard to grapple with the foreign policy drift of Gandhi's second administration. What had once been a well-structured and institutionalized foreign policy apparatus has been seriously weakened by her unpredictability and highly personalized decisionmaking style. We believe that New Delhi's inconsistencies have left its neighbors with a growing uncertainty about how to formulate their own policies in response. [redacted]

**Perceived Threats to Indian Interests**

**Superpower Intrusion.** In our view, India's paramount goal in the region is to oppose any superpower intrusion in South Asia. New Delhi views its various neighbors as integral parts of the Indian security screen. We believe New Delhi fears that superpower penetration of these states could lead to great power confrontation, which would be beyond India's control. [redacted]

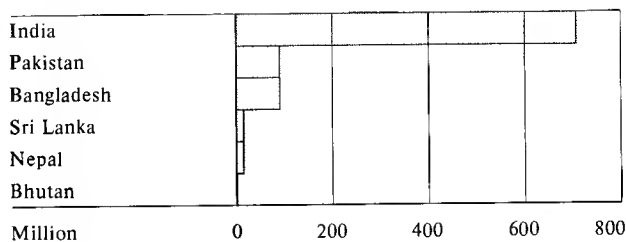
Although there are currently no superpower basing arrangements anywhere in the region, India, in our view, is concerned that one of the neighboring states might grant base rights as a lever against India. New

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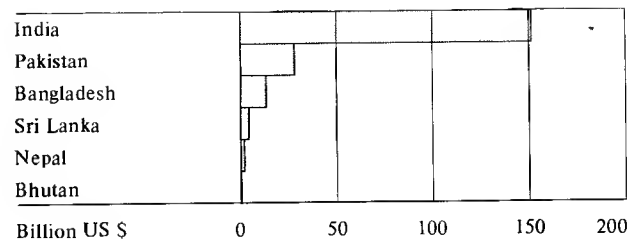
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**Figure 3**  
**India: Population and GNP in Regional Context**

Population—Mid 1981



Gross National Product, 1981



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Delhi remembers the secret US air facility at Peshawar and has publicly voiced its suspicion that the new US security relationship with Pakistan provides similar privileges.

The recent Sri Lankan decision not to conclude an agreement to lease surplus oil tanks at the port of Trincomalee to a large American firm was in part due to Indian pressure after New Delhi discovered that some of the oil would have been for the exclusive use of the US Navy.

Since the invasion of Afghanistan, India has been deeply concerned about Soviet activities in the region, although direct criticism is muted in the interests of overall Indo-Soviet relations.

Moscow's apparent refusal to comply with India's longstanding request for a token troop withdrawal from Afghanistan has angered and disappointed New Delhi. According to Embassy reporting, Indian officials have displayed some embarrassment over New Delhi's apparent inability to prevent Moscow from pursuing its own interests in the neighboring

states when they differ from India's. In this context, New Delhi is especially concerned about growing Soviet influence in Nepal, where Moscow maintains a large diplomatic presence, finances and advises the pro-Soviet factions of the Communist Party, and disseminates pro-Soviet propaganda through a Soviet-controlled Nepalese newspaper.

**Pakistan: The Military and Nuclear Threat.** Among the various neighbors, Pakistan is a special case in that it alone has the power to threaten Indian security.

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ty. Traditional frictions between the two, in our estimation, are the principal near-term threat to regional stability. Mutual distrust and lingering hostility have provoked three wars since 1947, and each side is obsessively suspicious about the other's intentions. Our assessment is that Gandhi views the Pakistanis as inherently irrational and Zia's regime as narrowly based and potentially unstable. [REDACTED]

Although Pakistan, in our view, cannot challenge India's overall superiority in troops and weapons for the foreseeable future, statements by Gandhi and her Foreign Minister indicate that the Indian leadership regards Pakistan's acquisition of sophisticated weaponry—including F-16 aircraft—as exceeding Pakistan's legitimate defense needs and therefore a threat to Indian security. She and many Indians have publicly stated that US-supplied arms will be used against India, not the Soviets. As proof of Islamabad's intentions toward New Delhi, Indians point to heavy Pakistani troop concentrations along their common border. India would prefer that Pakistan remain a weak buffer state within the Indian security system. Indians reject any references to parity between India and Pakistan, arguing that in size, population, industrial base, and other respects, India is the dominant power in the region. We believe that a major source of Indo-Pakistani disharmony is New Delhi's belief that Islamabad refuses to accept its inferior military status and is seeking foreign support to "artificially" attain parity with India. [REDACTED]

The major stumblingblock to a long-term improvement in Indo-Pakistani relations, in our view, is Kashmir. Although the state was partitioned following the 1947-48 war, New Delhi continues to claim publicly that all of Kashmir is constitutionally and legally part of India. Pakistan, on the other hand, maintains that Kashmir is a disputed territory whose final status must be determined through a UN-sponsored plebiscite. We believe neither side will agree to a settlement based on the status quo for the foreseeable future. [REDACTED]

India is also deeply concerned about Pakistani progress toward developing a nuclear weapons program, which Islamabad regards as the ultimate guarantor of its security. India has considered two basic strategies

### *Implications for the United States*

*We believe that the persistence of interstate frictions in South Asia has significant implications for US strategic and humanitarian interests. Three wars between India and Pakistan during the past 35 years have left a legacy of suspicion and distrust that complicates US relations with both countries. Pakistan's headlong pursuit of a nuclear weapons capability and recent developments in India's nuclear program increase the danger of a fourth war and the possibility of a nuclear arms race in the subcontinent that would cripple US nuclear nonproliferation policies.* [REDACTED]

*The threat of renewed Indo-Pakistani conflict diverts Pakistan's attention from its western border and inhibits Islamabad's ability to deal with the Soviet presence in Afghanistan. We believe that another Indo-Pakistani war:*

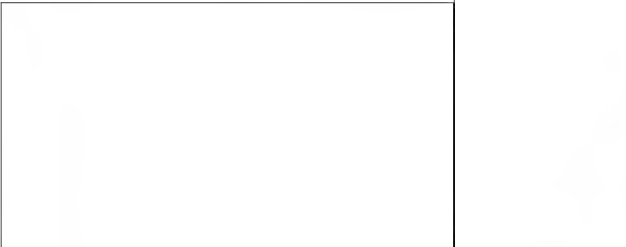
- *Would be won by India in a matter of days.*
- *Would probably result in at least a short-term extension of Indian hegemony over a severely weakened Pakistan, with the strong likelihood of chronic anti-Indian violence and persistent instability there.*
- *Could bring about the dismemberment of Pakistan by Soviet and Indian forces and give the Soviets direct access to the Arabian Sea through western Pakistan, with serious consequences for US policy.* [REDACTED]

*Serious political instability in Nepal or Bangladesh could invite outside intervention and increase the possibility of a sharp rise in Sino-Indian tensions, even though we do not anticipate that a second Sino-Indian war is likely to result from Indian military action south of the Himalayas. Instability or severe famine in politically fragile Bangladesh would probably send millions of refugees into adjoining areas of India, inflicting an immense economic and humanitarian burden on New Delhi and international relief agencies.* [REDACTED]

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in responding to the Pakistani program—preemptive military action and nuclear deterrence.



We estimate that over the next year, India will mark time while waiting for Pakistan to conduct a nuclear test, with the intention of exploding an Indian device in response. In our view, an Indian preemptive strike in advance of a Pakistani test is unlikely because of adverse international reaction, the poor prospects for permanently crippling the Pakistani program, and the possibility that such a strike could lead to a larger conflict. We believe that Zia, for his part, is likely to delay a nuclear test so as not to jeopardize Pakistan's arms supply relationship with the United States, but we doubt that the prospect of improved Indo-Pakistani relations will deter him from his overall pursuit of a nuclear weapon.

Despite the traditional animosities, Indo-Pakistani tensions have eased somewhat in recent months. Both appear genuinely interested in improving ties, but we do not expect them to exorcise all the ghosts that have haunted past relations. According to Embassy reporting, senior officials on both sides have been pleased with the positive atmosphere surrounding the current talks—including a brief but cordial meeting between Gandhi and Zia on 1 November—but many differences remain. Whereas Pakistan seeks a pact that would simply abjure the use of force, India wants a more comprehensive treaty of friendship. In addition to the nuclear issue, key obstacles to normalization, in our view, include Gandhi's visceral distrust of Zia and his regime and India's insistence on bilateral settlement of disputes, notably the Kashmir issue.

***The China Factor: Relations With Nepal and Bhutan.***

India's view of China as its principal long-term threat, in our view, is the basis for the approach taken in New Delhi's relations with the two Himalayan kingdoms,



*Prime Minister Gandhi of India and President Zia of Pakistan.*

Nepal and Bhutan.<sup>1</sup> New Delhi's treaty relationships with Bhutan (1949) and Nepal (1950)—updated versions of similar pacts concluded by British India—provide for Indian involvement in their affairs. Indian prime ministers have routinely emphasized that India's legitimate security concerns begin at the Himalayas and have steadfastly resisted any attempts by these countries to dilute New Delhi's influence. China's military invasion and tightened control of Tibet and its border war with India have reinforced New Delhi's policy of preserving its dominance in both countries.

Indian influence in both countries is pervasive. India and Nepal are inextricably linked by highly complex historical, cultural, religious, and economic factors. Ethnically, most Nepalese (including the royal family) are of Indian stock and followers of Hinduism, and the Nepalese language is Sanskrit based. In contrast, most Bhutanese are of Tibetan lineage and are Buddhists, and they speak a language similar to Tibetan.

Although India nominally recognizes both states as sovereign, Bhutan is in effect an Indian protectorate. Under the terms of its 1949 treaty, Bhutan agrees to

<sup>1</sup> A third kingdom—Sikkim—was a semi-independent Indian protectorate until 1974 when political instability largely engineered by India gave New Delhi the pretext to absorb it as India's 22nd state.

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*The Indira Factor*

[redacted] Indira Gandhi is in almost absolute control of Indian foreign policy and sets the tone for relations with India's neighbors. Her popularity and large parliamentary majority give her a free hand to define India's interests, and she reserves all important decisions to herself. We believe that a number of senior diplomats and policymakers do not share her hardline attitudes toward the neighboring states and have tried with mixed results to temper her views and decisions. [redacted]

In our view, Gandhi's personality and reactive leadership style have contributed substantially to perceptions of her among India's neighbors as a strict and unsympathetic parent. A staunch nationalist, she has stated publicly that Indian interests must not be sacrificed merely to improve relations with the other South Asian states, and she probably believes that the smaller countries will take advantage of lenient treatment to seize room for maneuver. We believe that Gandhi is temperamentally inclined to deal sternly with those who disagree with her and that she views independent action by the neighboring states as not only a challenge to India's regional supremacy but to her own personal authority. [redacted]

Personality conflicts with Gandhi have also played a significant role in India's relations with its neighbors. New Delhi's relations with Islamabad are colored by

Gandhi's visceral dislike for and distrust of President Zia and her deep personal suspicion of Pakistani motives, [redacted] She also has no great affection for President J. R. Jayewardene of Sri Lanka because of derogatory statements he made about her when she was out of power and because she had a close personal relationship with his predecessor, Sirimavo Bandaranaike. Other regional leaders understand well that running afoul of Gandhi is not in their best interest. [redacted]

We believe that Gandhi's view of India's neighbors in terms of narrow self-interest has in the past prevented India from exercising true leadership toward greater cooperation. She is generally disinterested in closer relations with the neighboring states because they have little of substance—with the recent exception of water—to offer India, with its broader resource base and industrial economy. As a result, Gandhi's policies toward the smaller states have depended on the needs of the moment, varying from hardline pressure to an occasional willingness to accommodate neighbor sensitivities and interests. [redacted]

Since her return to power in 1980, Gandhi has demonstrated a more accommodating attitude toward the neighbors, but we believe that this posture is mostly tactical and is rooted more in political caution than in a genuine change of heart. In our view, Gandhi remains committed to India's regional hegemony and would revert to tougher policies if she needed to. We conclude that there are limits to substantive improvements in relations as long as she remains in power. [redacted]

be "guided by Indian advice" in the conduct of its foreign relations. In our view, India has traditionally interpreted this provision as authority to prevent Bhutan from establishing direct relations with other states and to ensure that Thimphu follows New Delhi's lead on issues of importance to India. [redacted]

According to US diplomats, New Delhi's large mission in Thimphu acts as a shadow government. India also controls Bhutan's postal and telegraph service, its

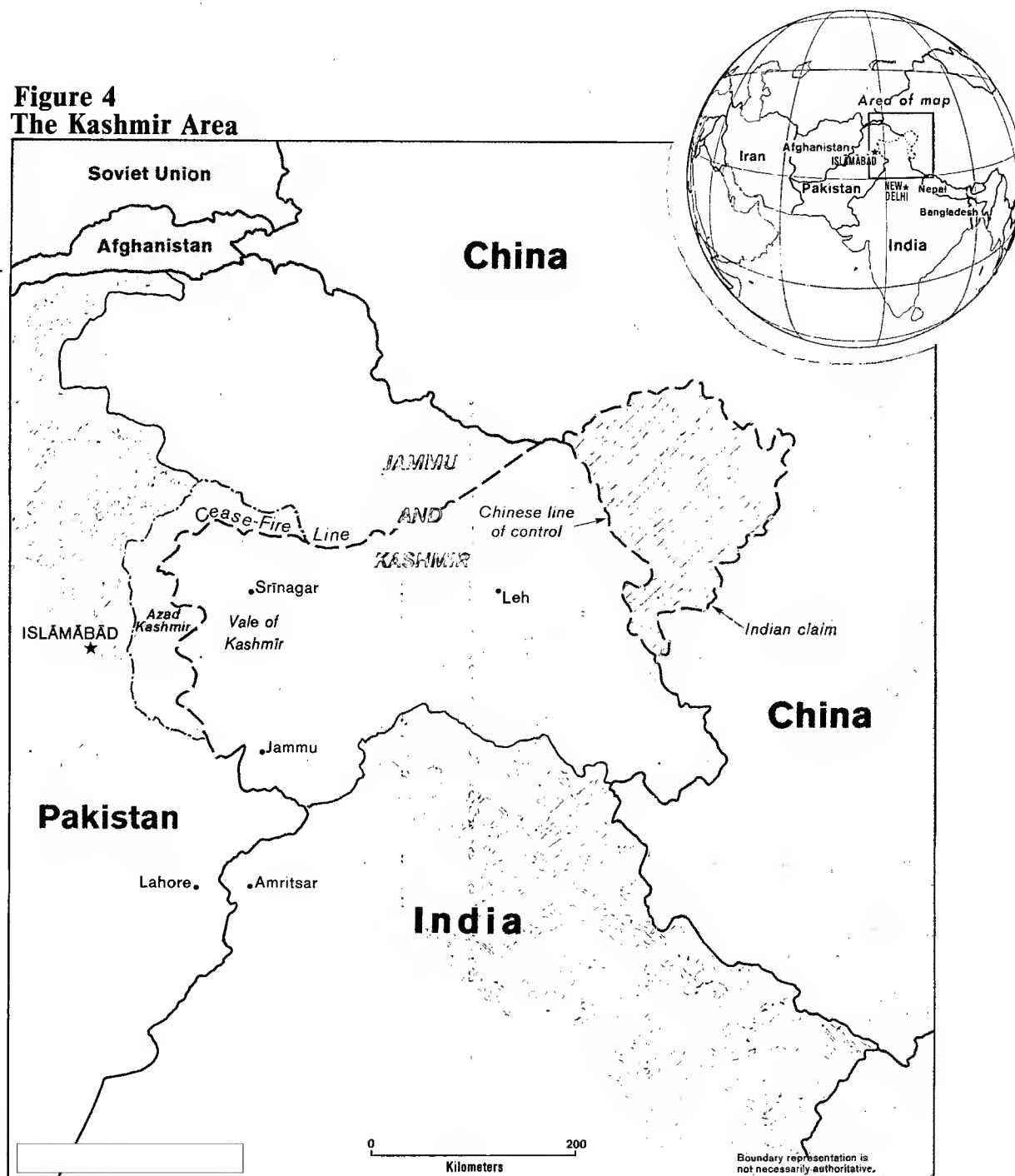
police (through a police adviser), and its military (through a military training team that is larger than the Bhutanese armed forces). In addition, the only road into Bhutan passes through India, which requires, and frequently denies, permits to travel there. After stalling for several years, New Delhi only recently approved air service into Bhutan. [redacted]

[redacted] Gandhi has made clear on several occasions that India will not permit Bhutan

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**Figure 4**  
**The Kashmir Area**



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to negotiate with the Chinese without New Delhi's involvement—which Beijing refuses to accept. Bhutan has no formal relations with Beijing. In 1978 the Bhutanese national assembly passed a resolution against establishing ties, [REDACTED]

The Indians have traditionally considered Nepal critically important as a barrier to Chinese invasion. Because of the open Indo-Nepalese border, a Chinese penetration of the Himalayan shield would leave northern India vulnerable to Chinese occupation. We believe that India interprets secret clauses in letters of exchange that accompanied the 1950 treaty as giving India the right to enter Nepal in force if its security is threatened, with or without Nepalese invitation or concurrence. We believe that India is largely resigned to the close relations Nepal has established with China over the years and is willing to accept a moderate level of Chinese influence there. Nepalese officials have commented, however, that India has recently been pressing Nepal to reject the favorable Chinese bid on a World Bank-financed irrigation project in southern Nepal because New Delhi does not want a significant Chinese presence in the area. [REDACTED]

**Secessionist Demands and Regional Strains.** Ethnic-based movements for autonomy and the decentralization of power in India complicate New Delhi's relations with the neighboring states. According to Indian press analyses, regional parties have gained strength in India as resistance to Gandhi's increasingly centralized one-man rule has grown and as her Congress Party has become weak and factionalized. The growth of these various regional movements, which are based predominantly in the outer fringes of the country, has intensified Gandhi's preoccupation with internal security and added to her fears that the neighboring states could aid dissident Indian groups as a means of pressing New Delhi. In July 1980 she stated publicly that Indian security is weakened by any form of domestic unrest, especially if it occurs in border areas, which can provide a cover for "all kinds of dangerous elements." [REDACTED]

In our view, India faces potential security problems in Kashmir—the only Indian state with a Muslim majority (about 75 percent) and which also happens to be ruled by political elements opposed to Gandhi and her party. According to Embassy reporting, the Indians claim that the Pakistanis are meddling in Kashmiri affairs. Indian worries are compounded by long-held suspicions that Kashmiri Muslims are disloyal to India and would prefer to be part of Pakistan. [REDACTED]

Politically Kashmir enjoys substantial autonomy under the Indian constitution and receives special financial assistance from New Delhi. In general, we believe Kashmiris want maximum autonomy, not union with either India or Pakistan. Many of them suspect, however, that Gandhi's government is intent on eroding the state's special status. [REDACTED]

The death in early September of Kashmir's strong-willed Chief Minister, Sheikh Abdullah, who clashed frequently with Gandhi, may mark the beginning of a period of instability. Although Abdullah provided for his son Farooq to succeed him, Farooq faces serious challenges from within his own party and his hold on power may be tenuous. The US Embassy reports that Gandhi is willing to work through Farooq to keep Kashmir peaceful, but we believe that Gandhi will probably begin maneuvering to help her own party win control of the state when elections are held next year. [REDACTED]

We doubt that Islamabad wishes to create problems for India in Kashmir. Because of internal difficulties elsewhere in India, however, New Delhi will be alert for signs that the delicate political situation in Kashmir is being exploited by Pakistan for propaganda purposes. [REDACTED]

We believe Bangladesh is of major strategic concern in New Delhi because it separates the Hindi-speaking heartland of India from the isolated and unstable fringe areas in the northeast. The Chinese invasion of the area in 1962 highlighted its strategic vulnerability, and Beijing still claims a large portion of Arunachal Pradesh. In addition, these states are economically less developed than the rest of the country, and for

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many years they have been the site of tribal insurgencies and ethnic agitation against control from New Delhi. [ ] Bangladesh in the past has assisted some of these insurgencies, mostly by granting sanctuary to groups like the Mizo National Front, which stages cross-border raids into India. [ ]

More critical for New Delhi, in our judgment, has been a three-year nonviolent agitation in Assam against an influx of foreigners—mainly Bangladeshis—who threaten to make the Assamese a minority in their own state. Agitating students have been trying to force New Delhi to deport all foreigners who entered the state during the past three decades, but no agreement has been reached with Gandhi's government. Aside from its strategic location, Assam is important for economic reasons. In 1981 the state provided almost one-third of India's domestic oil—15 percent of national consumption—most of which flows from Assam to the Indian heartland by means of a vulnerable pipeline. Agitators stopped this oil flow for 13 months during 1980-81, creating a significant burden on the Indian economy [ ]

We believe that India's willingness to exert pressure on Bangladesh is sharply reduced by New Delhi's concern with maintaining political and economic stability in a generally fragile area. A major political upheaval or economic catastrophe in overpopulated Bangladesh could send waves of refugees into neighboring regions of India, and there are no natural barriers to stop them. During the 1971 war almost 10 million refugees fled to India, posing a substantial economic burden. Many did not return home when the war ended. We believe that New Delhi would regard any new refugee movement as profoundly destabilizing [ ]

In our view, India's noninterference in Bangladesh's presidential election last fall and New Delhi's low-key response to the recent military coup in Dacca were intended to reassure the Bangladeshis and thus preclude further instability. For the same basic reasons, India would be inclined to assist Bangladesh with food shipments as it did in 1972 to prevent widespread famine, even at the cost of significantly depriving itself. [ ]

The movement among Sri Lankan Tamils for the creation of a separate Tamil state on the island has had some political repercussions among India's own troublesome Tamil minority in the southern state of Tamil Nadu—a state that has been led by regionally based Tamil parties since 1967 and which has long resisted control by New Delhi. We believe that Gandhi may have some latent sympathy for the Tamil separatist movement in Sri Lanka but that, unlike some Indians, she probably has no interest in supporting it. Tamil separatism in Sri Lanka has been a cause celebre among some political elements in Tamil Nadu who have long used it as a weapon against New Delhi and each other. In our view, Gandhi believes that increased Tamil separatist activity in Sri Lanka can only harm the interests of both countries. Moreover, Gandhi's well-established policy of nonsupport for Tamil separatism suggests that she is eager to prevent this issue from damaging her relations with the state government in Madras as well as with Colombo. [ ]

#### Indian Leverage

**Bilateralism: "Winning Through Intimidation."** India insists on dealing with each of its neighbors on a bilateral basis—a form of "divide and rule." This policy enables New Delhi to enjoy the benefits of its size and power without the risk of being chastised or outvoted at multilateral regional meetings. In theory at least, it is also meant to discourage the smaller states from working in concert against Indian interests, a tactic the Indians term "encirclement." The principle of bilateralism was institutionalized in the 1972 Simla Accord between India and Pakistan that formally ended the 1971 war and established a framework for future Indo-Pakistani relations. [ ]

We believe that India's narrow definition of bilateralism is not generally shared by its neighbors and has been a major stumblingblock between India and Pakistan in their recent negotiations on a nonaggression pact. In New Delhi's view, bilateral disputes are to be discussed only by the two concerned parties. Pakistan and India's other neighbors believe that

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adherence to bilateralism should not prevent them from raising contentious issues in international forums. [redacted]

India is unlikely to give up its bilateral approach to the sharing and harnessing of Ganges and Brahmaputra River water—the region's most vital resource. A comprehensive treatment of the issue, including storage reservoirs in Nepal and downstream works in India and Bangladesh, should necessarily involve all three countries. Bangladesh and Nepal favor a trilateral approach because of the regional nature of the problem and the desire for each other's support against India. New Delhi, however, continues to insist on dealing with each of them separately, at some cost to the common good, in order to maximize its benefits and minimize its competition (see appendix). [redacted]

**Military Muscle.** We believe that the pattern of India's military deployments directly reflects Gandhi's primary concern with defending the country against what she views as an unstable and militarily threatening regime in Pakistan. The placements of military units—mainly along India's northern and western borders—also reflect a long-held Indian fear that it may be forced to fight a two-front war against simultaneous attacks by both Pakistan and China. India's military might, however, is superior to the combined power of its immediate neighbors, and in our judgment, New Delhi could easily repel a coordinated attack by all of them, assuming China did not intervene. [redacted]

The neighboring states view India's troop deployments and growing military strength with considerable suspicion. They mutter in private that India is building its military muscle to overawe them and to serve as a bargaining lever in bilateral negotiations. The neighbors also worry about where India plans to use the sophisticated weaponry it continues to obtain from the Soviet Union and Western Europe in amounts that appear to exceed its defensive needs. [redacted]

India's professed assurances of good neighborly relations, noninterference, and absence of territorial ambitions do not obscure the fact that New Delhi has in the past used armed force as an instrument of policy

within the region. Examples include the forcible "liberation" of Goa in 1961, the absorption of Sikkim in 1974, and the invasion of East Pakistan in 1971. India's naval confrontation with Bangladesh over a disputed offshore island in 1981 created a storm of anti-Indian protest in Dacca, where the action was seen as an attempt to destabilize President Zia's government. [redacted]

**Economic Policies: Aid, Trade, and Transit.** India has a long history of applying economic pressure to achieve political ends, particularly against the landlocked Himalayan kingdoms, where New Delhi's leverage is greatest. India employs a carrot-and-stick approach—consisting of assorted sanctions and inducements—in its economic policies toward Nepal and Bhutan, both of which heavily depend on India for their survival. In both cases, India is a major aid donor and trading partner as well as the only practical outlet to the sea. [redacted]

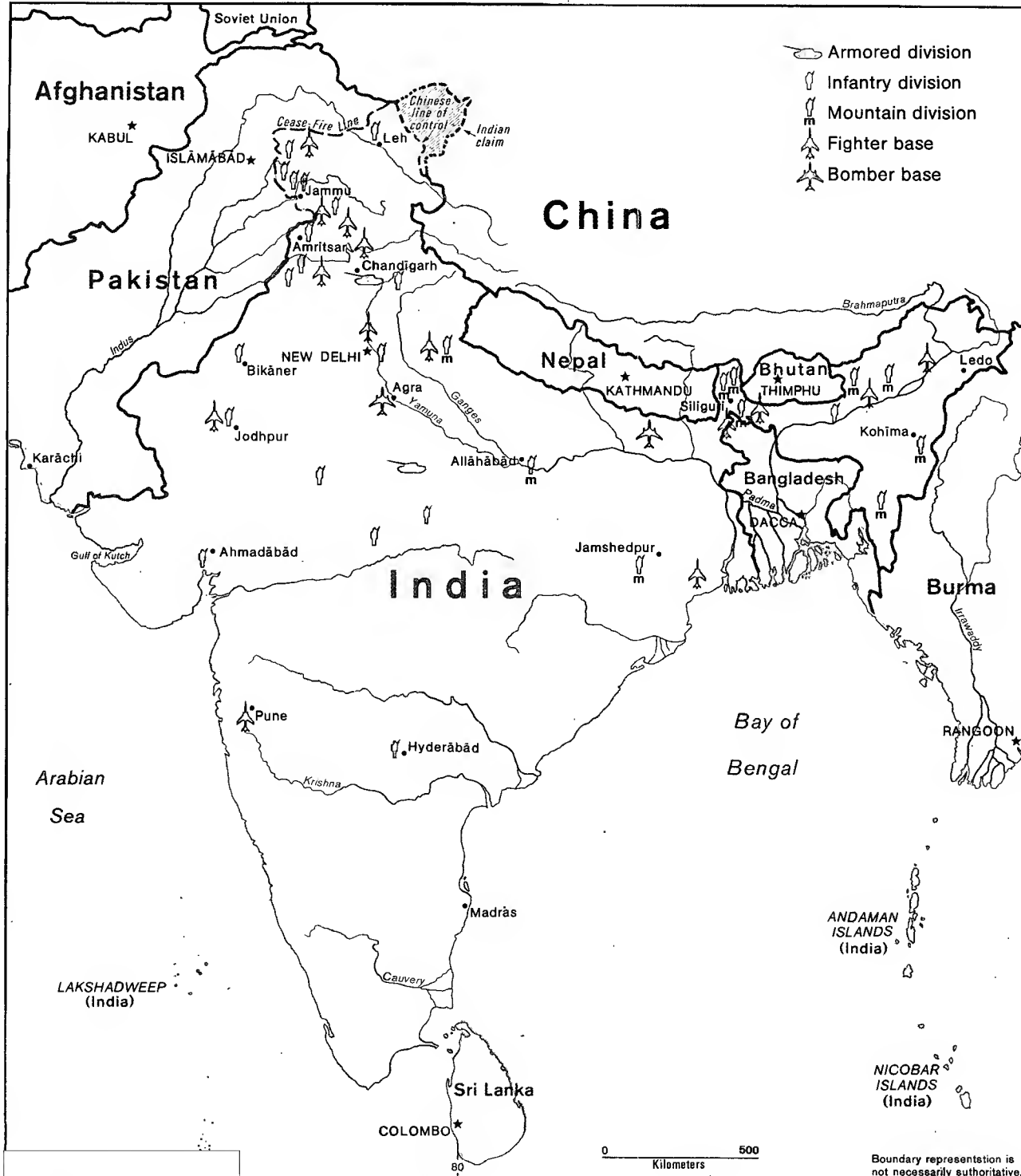
When Indian actions cause economic hardships in the smaller states, however, we believe it is not always the result of deliberate foreign policy. Rather, it is often the accidental outcome of Indian internal policies, scarcity, or bureaucratic inefficiency compounded by a lack of sensitivity. Because of the tremendous disparities in size between India and the mountain kingdoms, for example, bilateral trade and transit difficulties can have a major impact on the smaller states while hardly affecting the much larger Indian economy. Indian competition in the world jute and tea markets limits export opportunities for Bangladesh and Sri Lanka, but it has no political motivation. [redacted]

Gandhi and her predecessors have long tried to persuade Nepal to acknowledge that a special relationship exists with India and that it is in Kathmandu's economic interest to deal with New Delhi on a preferential basis. In our judgment, Nepal rejects this notion as an uncomfortable dependency brought about by unacceptable Indian paternalism. Under New Delhi's definition of the relationship, India grants Nepal economic "concessions," notably in trade and transit arrangements. In return, Nepal is expected to support India's foreign policy positions [redacted]

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**Figure 5**  
**Deployment of Indian Air and Ground Forces**



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and not to rely on extraregional ties to help safeguard its independence and extract further concessions from New Delhi. [ ]

We believe that the Nepalese fully understand that they have no choice but to give in to India's economic and commercial pressures, but that for political reasons they cannot afford to appear subservient. Kathmandu depends heavily on the port of Calcutta as a transit facility for its exports and third-country imports. India has been able to influence Nepalese import and export policies by imposing bureaucratic impediments—such as inadequate allocations of freight cars or imposing massive security deposits on transit trade. India has sometimes held up imports deemed in excess of Nepal's domestic needs or refused permission to export Nepalese goods that New Delhi suspected were of Indian origin. [ ]

For several years India has been complaining to Kathmandu about the import of third-country luxury goods into Nepal and their subsequent smuggling into India. In 1980 the Indian Embassy in Kathmandu estimated this illicit trade at \$3.9 million per year. The smuggling provided the Nepalese Government with badly needed revenues (in the form of import duties) but violated the Indian ban on imports of consumer goods. Under substantial pressure from New Delhi, Nepal curtailed issuing licenses for the import of luxury items early this year. In return, India made a number of concessions, releasing needed imports that had been accumulating in Calcutta for several months and significantly expanding the facilities (and cutting the red tape) involved in transshipment. [ ]

India's economic leverage can work to Nepal's benefit. Occasionally, New Delhi permits Nepal to buy a quota of Indian goods, such as coal, cement, or steel, even when supplies are inadequate to meet India's own economic needs, but Kathmandu contends that India often restricts this "concession" for political purposes. [ ]

India has even greater leverage over Bhutan. Thimphu conducts over 90 percent of its foreign trade with India, which is by far the largest single aid donor. [ ] India has in the

past willingly supplied most of Bhutan's military and economic development assistance to dissuade the Bhutanese from seeking greater independence through the growth of outside ties, particularly with China and the West. [ ]

In the past Gandhi has used subtle pressures to discourage unauthorized Bhutanese overtures [ ] New Delhi in October 1980 urged Bhutan not to sign trade and transit agreements with Bangladesh and offered to compensate Thimphu for whatever gains the treaties would afford. Bhutan signed, however, to assert its sovereignty, but India—through which the trade had to pass—has prevented the agreement from being implemented. [ ]

**Political Subversion.** [ ] over the years, India has occasionally financed and sheltered several expatriate democratic groups seeking to overthrow repressive neighboring regimes and [ ] We believe that the Indian intent has been less to overthrow these governments than to keep them off balance and to build influence with democratic groups should they come to power later. [ ]

India supported Nepali Congress Party elements for several years after the royal coup of 1960, [ ] We believe that New Delhi's penetration of the Nepalese Government is considerable and that the Prime Minister is susceptible to Indian influence. [ ]

India's long and close relationship with the Awami League in Bangladesh has led many Bangladeshis to regard the League—the party of independence—as India's agent in place. Gandhi would almost certainly regard a pro-India Awami League government as ideal. [ ]

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We believe that Gandhi would prefer to deal with a popularly elected Pakistan People's Party government in Islamabad instead of President Zia but realizes that overt Indian support to the PPP would be counterproductive. [REDACTED]

#### **"Indophobia"—Coping With the Indian Colossus**

In our judgment, India is the dominant foreign policy concern of the smaller South Asian states, which view their giant neighbor as both protector and threat. They generally believe that the key to peace and regional stability lies with Indian decisions and actions, and they recognize that good relations with New Delhi are necessary for their survival. On the other hand, the neighboring states resent India's big brother attitude and its insistence on intimidating them in bilateral contacts. [REDACTED]

Shared apprehensions about India's regional ambitions have led to fundamental differences in regional security perceptions on such issues as the South Asia Nuclear-Weapons-Free Zone and the demilitarization of the Indian Ocean. For a number of years Pakistan has advocated establishing a nuclear-free zone, a concept that has received support in principle from the other neighbors. India, however, rejects it as meaningless unless China somehow becomes involved. Because of their common adherence to nonalignment, all of the South Asian states would favor some form of an Indian Ocean Zone of Peace, but there are important differences between India and the others. The Indian Ocean policies of Bangladesh, Sri Lanka, and Pakistan in particular are colored by fears of India's growing naval strength. Although these states see value in preventing a superpower arms race in the Indian Ocean, they have told US diplomats that they are equally concerned that powerful littoral states such as India also exercise restraint in naval deployments. [REDACTED]

**Protecting Sovereignty.** With the possible exception of Pakistan, all of the smaller states recognize they

are defenseless against India and depend on their own diplomatic skills and Indian good will for stable relations. Problems occur, we believe, when the need to accommodate Indian policies and sensitivities directly conflicts with the obligation to protect and assert sovereignty. Leaders in neighboring states must perform a balancing act—privately assuring India of loyalty while avoiding public statements or positions that could be construed as endorsements of India's regional dominance. [REDACTED]

The sovereignty issue, in our view, is of major concern in the Himalayan kingdoms. Since 1975 King Birendra has been seeking international recognition of Nepal as a zone of peace, a concept that has become a guiding principle of Nepalese foreign policy. The core provision of this concept is that Nepal will not permit its territory to be used for hostile action against any other state and expects reciprocal treatment. The proposal helps boost Nepalese nationalism by asserting its sovereignty and right of political self-determination. Ostensibly the King claims that acceptance of the zone-of-peace idea by other powers will help immunize Nepal against spillover from great power rivalry in the region and from deterioration in relations between its neighbors. We believe that in reality the zone-of-peace proposal is aimed squarely at diluting certain security aspects of the 1950 treaty with India and easing Nepal's discomfort with its vulnerability to Indian pressure. [REDACTED]

Although about 30 countries, including China and all of the smaller South Asian states, have endorsed the zone of peace idea at least in principle, India has not, and the USSR—presumably at India's behest—has also withheld its endorsement. India was put off by China's rapid endorsement in 1975 and believes the proposal is a Nepalese attempt to lessen New Delhi's security options. We believe that New Delhi's refusal has only intensified Nepalese fears that India intends to dominate Nepal. [REDACTED]

[REDACTED] We doubt, however, that India will formally endorse the concept, at least in the near term, except in the unlikely event that Nepal makes specific concessions to India's security interests. [REDACTED]

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**External Ties.** Both the larger and smaller neighboring states seek to counter India's influence by forging extraregional ties to individual powers, such as China or the United States, or to multilateral organizations, such as the United Nations, the Nonaligned Movement, or the Islamic Conference Organization. Pakistan in particular has a long history of looking outside the region for support in its disputes with India and was a member of both the Central Treaty Organization and the Southeast Asia Treaty Organization. The Maldives recently was granted a special membership in the British Commonwealth—a move symbolizing not only Male's need for development assistance but also its desire to forge links with the outside world. [ ]

Bhutan is actively looking for ways to loosen India's grip. During the past year, according to press reports, Thimphu has significantly expanded its participation in international organizations—including the Asian Development Bank, the World Bank and International Monetary Fund, the World Health Organization, and the Food and Agriculture Organization. To New Delhi's discomfort, Bhutan has also begun to approach donors other than India, such as Kuwait and Japan, for assistance with development projects. [ ]

In our view, the search for new ties is both an attempt to diversify trading partners and sources of aid as the growing Bhutanese economy progresses beyond subsistence agriculture and a cautious attempt to test India's tolerance for Thimphu's independent actions. The King's call in late 1979 for a revision of the 1949 treaty was hastily withdrawn when it became apparent that Gandhi would probably return to power. In December 1979, however, Thimphu took advantage of political drift in New Delhi to quickly exchange resident ambassadors with Dacca—without prior Indian concurrence—in order to present the new Gandhi government with a fait accompli. [ ]

In 1981 Sri Lanka announced that it was interested in joining the Association of Southeast Asian Nations (ASEAN) only days after Colombo was host to a meeting of South Asian Foreign Secretaries to discuss

plans for creating a regional cooperation organization. Sri Lankan officials claimed publicly that they saw no conflict in joining both groups. We believe, however, that Jayewardene was motivated by a lack of confidence in the South Asia forum's possibilities—given India's expected dominance—and a desire for political support from outside the region for Colombo's positions on Afghanistan and Kampuchea. The bid was finally rejected by the ASEAN members on the basis of geographic proximity. [ ]

South Asia's Islamic states—Pakistan, Bangladesh, and the Maldives—play active roles in the Islamic Conference Organization both to accentuate their separate identities from Hindu India and to cement ties to the wealthy Muslim countries of the Middle East. Both Pakistan and Bangladesh maintain close relations with Saudi Arabia and depend on large amounts of Saudi financial assistance. Pakistan has also been at pains to strengthen relations with Iran, and President Zia has personally played an active role in efforts to mediate the Iran-Iraq war. [ ]

India's neighbors look to China for both moral and material support, according to Embassy [ ]

[ ] They share a number of foreign policy views with Beijing, such as an opposition to Indian dominance of the subcontinent and a fear of Soviet expansionism as evidenced by the situations in Afghanistan and Kampuchea. Embassy and press analyses indicate that China has good relations with all of India's neighbors (except Bhutan), especially with Nepal and Pakistan. Wedged between two Asian giants, Nepal has traditionally preserved its freedom of action by maintaining good relations with both India and China—and occasionally by playing one off against the other—a policy that Kathmandu calls "equidistance." Beijing's close relations with Islamabad date from the 1962 Sino-Indian war and have long fueled fears in New Delhi of a Pakistan-China-US axis aligned against Indian interests. [ ]

Since the Soviet invasion of Afghanistan, the Chinese have intensified their efforts to block further Soviet inroads in the region. The Chinese have encouraged closer Indo-Pakistani ties and have also supported the smaller states' enthusiasm for a South Asia regional

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*The Impact of Afghanistan and Kampuchea*

India's somewhat uncritical acceptance of the invasions of both Afghanistan and Kampuchea—outgrowths of Gandhi's close relations with the USSR—differs dramatically from reactions of its smaller neighbors and has led to an unprecedented divergence in regional foreign policy perspectives. We believe that for the first time New Delhi has found itself seriously isolated in the region it purports to lead on issues directly affecting its security, while its influence and prestige are being eroded simultaneously by increasing superpower involvement in the subcontinent. [ ]

The neighboring states reacted to the invasion of Afghanistan with considerable alarm, and initially they looked to India for protection. [ ]

[ ] In March 1980 King Birendra of Nepal toured India, Sri Lanka, and Bangladesh to explore the possibility of a common approach to Afghanistan and told US officials that Nepal wanted India to take the initiative. Both Sri Lanka and Bangladesh emphasized to India the need of small countries for protection from such invasions and expressed concern about the direct Soviet threat to Pakistan. The apparent paralysis of Gandhi's new government was both disappointing and disquieting. According to Embassy reporting, President Jayewardene of Sri Lanka was concerned about India's lack of resolve and failure to initiate a regional response to the invasion. On the other hand, India's mild response rekindled feelings of vulnerability to a predatory

organization, which China believes would enhance the collective economic security of the area and diminish great power influence. The Chinese have also long supplied Pakistan and Bangladesh with needed military equipment and training as well as a limited quantity of economic assistance. [ ]

We believe that China has come to regard India as an essential element in containing Soviet expansionism in South Asia, and in recent years, Beijing has been

India among the smaller states. Bangladesh expressed a commonly held fear that India might see the Soviet action as an acceptable precedent for itself. [ ]

By taking an ambivalent position on the issue, we believe that New Delhi provided the smaller states with new means to challenge India's regional leadership. New Delhi's isolation was readily apparent when India became the only South Asian state to abstain on the UN resolution condemning the Soviet action and calling for a complete troop withdrawal. With the exception of Bhutan, which was conveniently absent from the voting, all the other states voted in favor. Pakistan immediately began organizing a conference of Islamic foreign ministers. Islamabad was supported by Dacca, which was also active in promoting Security Council action on Afghanistan. [ ]

India became further isolated in July 1980 when New Delhi formally recognized the Soviet- and Vietnam-backed Heng Samrin government in Kampuchea. [ ]

[ ] New Delhi's recognition of the Heng Samrin regime had contributed significantly to India's pro-Soviet image in the region, which in turn prompted India to withdraw its Charge from Phnom Penh after only six months to deemphasize the post's importance. Even tiny Bhutan broke ranks with New Delhi on the Kampuchea issue. At the Havana Summit conference of the Nonaligned Movement in September 1979 Thimphu voted to seat representatives of Kampuchea's Pol Pot regime while India abstained. [ ]

actively pursuing closer ties with New Delhi. At the same time, China has moved to assure Pakistan and the smaller neighboring states that an improvement in Sino-Indian ties will not be at their expense. Chinese Foreign Minister Huang Hua's visit in June 1981 to New Delhi was followed by similar calls in Sri Lanka and the Maldives. Premier Zhao Ziyang also made a successful goodwill tour through Pakistan, Nepal, and Bangladesh in May and June of last year. [ ]

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**Nonalignment.** All of the South Asian countries are members of the Nonaligned Movement and generally share its views. India has generally welcomed its neighbors' membership in the movement and supported Pakistan's entry in September 1979. We believe that New Delhi views their adherence as a hedge against great power intrusion into the region—specifically through the granting of base rights—and has used its principles as a foreign policy lever by consistently warning neighbors against damaging their non-aligned credentials through close association with power blocs. [REDACTED]

As a leader of the Nonaligned Movement, India views it as an organization where it can count on neighbor support even though, in our judgment, the smaller states following more moderate, pro-West policies in movement gatherings resent India's presumption to speak for the movement and to dictate policies to them. Ironically, in practice the movement provides a forum in which the smaller states can disagree with India with relative impunity in the name of non-aligned solidarity. [REDACTED]

#### Regional Cooperation

The South Asian states are cautiously inching toward the establishment of a South Asia Regional Forum, a concept that was originally proposed in May 1980 by the former President of Bangladesh, Ziaur Rahman. He had envisaged a meeting of all South Asian foreign ministers with a short-term goal of formulating a common position on Afghanistan but hoped that such a conference might lay the groundwork for a permanent regional organization. [REDACTED]

Initially, the cooperation concept received strong endorsement from the smaller states, which believed it could provide significant economic benefits, as well as an opportunity to be treated by India on the basis of equality. India and Pakistan, however, were not enthusiastic, according to Embassy reporting. India feared confrontation with a united front consisting of Pakistan and the smaller states over its position on Afghanistan and other bilateral issues. Pakistan believed that the association would only institutionalize India's dominance and provide New Delhi with a handy means of keeping the smaller states in line. Pakistan also feared that membership in a formal

regional organization would undermine their valued ties to the Persian Gulf states. Neither India nor Pakistan wanted to be held responsible for blocking the forum concept, however, so both went along with the idea and hoped it would die a natural death. [REDACTED]

The forum proposal survived Ziaur Rahman's assassination in May 1981, and three meetings at the foreign secretary level have taken place—in Colombo (April 1981), Kathmandu (November 1981), and Islamabad (August 1982). Contentious political issues and bilateral disputes have been scrupulously avoided in favor of noncontroversial topics of a technical nature. At the initial meeting in Colombo groups were set up to study regional cooperation in five areas: agriculture, rural development, telecommunications, meteorology, and health and family planning. Three additional fields—transport, postal services, and science and technology—were added at the Kathmandu meeting, and another group on sports, arts, and culture was formed at Islamabad. [REDACTED]

Prerequisites for progress will be the continued participation of India and Pakistan and at least stable relations between them. We believe that New Delhi would probably withdraw from the forum if it began to sense any anti-India collaboration among the neighboring states, and we expect India will block or oppose any decision that is detrimental to its interests or discussion of any issue such as water sharing that it considers sensitive or bilateral in nature. [REDACTED]

#### Outlook

We believe that prospects for near-term stability in the subcontinent are generally good. India's reappraisal of its regional interests and its attempts to counter its pro-Soviet image are positive signs that New Delhi is seeking to play a more constructive role in the region. India's more relaxed attitude toward its neighbors in recent months could be further reinforced by closer relations with China, which is known to favor regional cooperation and better Indo-Pakistani ties, and by India's anticipated assumption of the Nonaligned Movement chairmanship in 1983, which we believe may cool Gandhi's known penchant for heavyhandedness in relations with the smaller states. [REDACTED]

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Tension between India and Pakistan remains the most serious threat to peace. A key danger is that if Pakistan manufactures a nuclear weapon, India may find itself forced to pursue its own nuclear weapons program and thus begin a nuclear arms race in the subcontinent. Although we believe that hostilities are unlikely in the near term, a fourth Indo-Pakistani war would most likely start as a result of Pakistan's nuclear policies. [ ]

Both New Delhi and Islamabad have exhibited some sincerity in their desire to normalize relations. We would have judged bilateral talks on a nonaggression pact unlikely less than a year ago. Although we do not expect dramatic progress in the near future, we believe that the prolonged Soviet military presence in Afghanistan will continue to provide a stimulus for talks. If a constructive dialogue continues, an understanding may result which falls short of complete rapprochement but which may help prevent an outbreak of hostilities that neither government wants. [ ]

In our view, the South Asian states will probably make steady but unspectacular progress toward formal regional cooperation. The longer regional meetings continue, the harder it will be for any participant to back out or try to scuttle the effort. We believe that

the forum's success, however, will depend on the ability of the smaller states to make India feel comfortable in dealing substantively with them in a regional context. [ ]

We believe that the South Asian states can expect only limited cooperation, however, as long as Gandhi remains in power. Her narrow definition of India's national interests—which may not be shared by some of her professional diplomats—will ultimately determine which issues India is willing to discuss in a multilateral setting. In particular, we see little prospect that India will give up much of its leverage on sensitive matters that vitally affect its economic well-being in the interests of better relations with its neighbors. Water-related disputes, in our view, will probably continue as a major constraint on improved regional relations for the remainder of this century. [ ]

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## Appendix

### Water Sharing

Water is South Asia's largest economic resource and is the lifeblood of the region, and we believe that water sharing is likely to be the most pressing regional issue for at least the next two decades. The civilization of the subcontinent has been totally dependent on the seasonal monsoon rains for agriculture since prehistory. The lack of any comprehensive program to harness this resource, however, leaves the region vulnerable to crop failure from insufficient rains, devastating floods in years of strong monsoons, and in any case too little water during the dry season (March to May) to grow crops, resulting in the limited use of agricultural land. Controlling water flows from the Ganges and Brahmaputra Rivers through some regional arrangement would:

- Reduce the subcontinent's vulnerability to flooding, soil erosion, and silting.
- Greatly improve agricultural production by allowing the irrigation of dry season crops and preserving arable land.
- Improve internal transportation networks.
- Provide many thousands of megawatts of hydroelectric power.<sup>2</sup>

Bangladesh and Nepal favor a regional approach to cooperation on water issues because of the multilateral nature of the problem and the desire for each other's support against India, which insists on treating the issue with each neighbor separately. For several years, Bangladesh has advocated including Nepal in its discussions with India, but this has been consistently vetoed by New Delhi. Nepal has recently kept a low profile on the issue of trilateral cooperation out of concern for overall Indo-Nepalese relations, but Nepalese officials have indicated their willingness to participate if invited by both Dacca and New Delhi. India was highly displeased when King Birendra called for regional development of water resources at

<sup>2</sup> Nepal's hydroelectric potential is enormous. Some estimates are as high as 86,000 megawatts—about six times that of the United States and Canada combined—though vulnerability to earthquakes and the high cost of investment in distribution systems will prevent full exploitation. By the mid-1990s Nepal will have developed less than 150 megawatts of electricity-generating capacity.

the Colombo Plan meeting in December 1977. Among its other objections, India believes that a cooperative approach could divert some benefits India wishes for itself.

The water issue is particularly acute for Bangladesh because India is increasing its upstream use of Ganges River water and also has the power to divert the flow of the river during the critical dry season. In 1975 India began operation of its controversial Farakka barrage, a dam located 11 miles upstream from the Indo-Bangladesh border that is designed to shunt water via a canal to the Hooghly River in order to flush silt from Calcutta port. Bangladesh's attempts to secure a greater portion of the dry season flow for its own use have been consistently stymied by India. Major results have been:

- A reduced supply of irrigation water necessary for growing new high-yield varieties of rice.
- Increased salinity and reduced supplies of fresh water for both industrial and domestic use.
- Reduced river depths, which hinder navigation.
- A drop in ground water levels, which impedes the planting of crops.

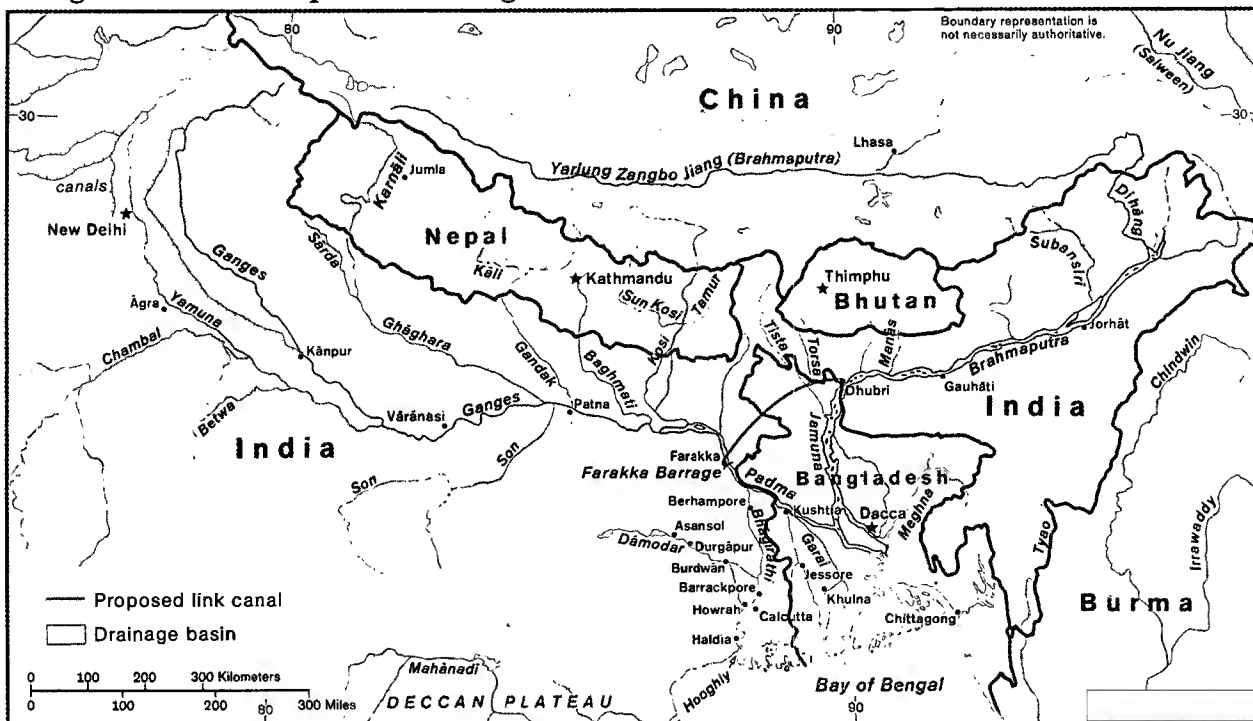
Bangladesh and India's Janata government signed a five-year, short-term water-sharing agreement in November 1977 that provided Bangladesh with a guaranteed portion of the dry season flow and assigned the bilateral Joint Rivers Commission the task of seeking a long-term solution to the problem. The JRC, however, has not done so. Although India has scrupulously adhered to the 1977 agreement, Gandhi has consistently criticized it as a sellout to Bangladesh that is not in India's interests.

In October 1982 India and Bangladesh extended most of the provisions in their 1977 water-sharing agreement through an informal understanding that will expire in 18 months. Although the new arrangement does not include a key clause that protected Bangladesh's share of water during the severest droughts, it is far more generous to Dacca than some observers

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**Figure 6**  
**Ganges and Brahmaputra Drainage Basins**



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had predicted. We believe that Gandhi's more sympathetic attitude was motivated by a genuine concern for political stability in Bangladesh, where water sharing is a sensitive and potentially explosive issue.

A continuation of favorable water-sharing terms beyond the next 18 months, however, is contingent on the two sides finding a solution to the long-term problem of increasing the supply of usable water. Because Bangladesh is too flat for dams, India favors construction of a massive link canal connecting the mightier Brahmaputra with the Ganges. As a price for the new arrangement, Dacca had to agree to examine this proposal but may not be able to sell it to the Bangladesh people. They fear that a canal would involve the loss of valuable agricultural land and the displacement of population, as well as the possibility that, depending on the canal's location, India might still control the flow of water. Although India traditionally has rejected Dacca's counterproposal for a system of storage reservoirs in Nepal, whose rivers account for the bulk of the Ganges' flow, New Delhi

has agreed to include it in prefeasibility studies. Either approach would require immense expenditures lasting more than a decade.<sup>3</sup>

India has an immense stake in controlling the waters flowing out of Nepal. Soil erosion caused by deforestation in Nepal's hills has greatly exacerbated flood damage downstream in India and has hampered the abilities of both countries to increase agricultural production.

As a potentially vulnerable lower riparian in its own right, India is intent on reducing Nepal's leverage by insisting on joint control of hydroelectric projects in Nepal if they are located on rivers that ultimately flow into India. In an attempt to break the logjam on major hydroelectric projects that have been stalled for years, India has relaxed its earlier insistence on a comprehensive plan for the development of Nepalese

<sup>3</sup> Preliminary cost estimates range from a minimum of \$7 billion to more than \$100 billion for comprehensive development of the river systems over 35 years.

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rivers and is now prepared to push ahead on a few major projects such as the Karnali dam. (c)

According to Embassy reporting, Nepal is eager to develop its water resources but is moving slowly and carefully in its negotiations with India in order to protect its interests and derive maximum benefit. For example, Kathmandu does not agree with India's plan to place a series of high dams wherever the rivers come out of the hills because much of Nepal's best land in the hill areas would be submerged. Nepal needs Indian assistance for its hydroelectric projects but is wary of Indian intentions. According to press analyses, the Nepalese are somewhat chagrined that they allowed India to help develop smaller hydroelectric projects, such as Kosi, in ways that almost exclusively benefited New Delhi. In implementing its larger projects such as Karnali Nepal plans to ensure that the benefits are more equally shared and will probably seek guarantees that India will purchase all the electric power generated that Nepal cannot use.

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